

STATE-LOCAL ASSISTANCE

Both the U.S. and California economies slowed in 2001. Due to its dependence on the personal income tax with its highly volatile capital gains component, the State faces significant fiscal challenges. However, local revenue sources such as sales and property taxes are less volatile. Consequently, cities and counties have not experienced such drastic swings in revenues as has the State.

Due to the current State fiscal environment, reductions were required to local government funding in a number of areas. However, the Governor's Budget continues the Administration's efforts to support high priority programs of mutual concern to the State and local governments, such as public safety, health and human services, housing, transportation, and resources. The funding provided for these programs totals nearly \$6.7 billion.

In addition, the Budget includes full reimbursement to local governments for the vehicle license fee offset program, totaling approximately \$2.7 billion in 2003-04 and \$4.1 billion for 2004-05. Important to note, however, is that in 2003-04, local governments' vehicle license fee revenues were reduced by \$1.3 billion due to lag time necessary to implement higher fees when the offset was eliminated on June 20, 2003. Chapter 231, Statutes of 2003, provided that this "gap" in funding would be repaid to local governments in 2006-07. Due to the State's current fiscal environment, the Budget proposes a continuation of the 2003-04 gap level of reduction (\$1.3 billion) to local governments in the form of an increased Educational Revenue Augmentation Fund (ERAF) shift beginning in 2004-05. Local governments would shift approximately \$1.3 billion of property tax revenues to the ERAF in order to decrease the State's General Fund Proposition 98 obligation.

